

Hoosiers Win Big.



2008 Annual Report
July 1, 2007–June 30, 2008

Our Mission

To responsibly provide innovative and entertaining lottery games for the benefit of the citizens of Indiana.

About Us

The Hoosier Lottery began with a \$6 million investment from the state in 1989, after approval of a voter referendum the previous year. That seed money was repaid with interest in less than a year. Net proceeds of the Hoosier Lottery are transferred annually to the Indiana State Treasurer, who in turn deposits a set amount into the Indiana State Teachers' Retirement Fund and the Police Officers' and Firefighters' Pension and Disability Fund. The remaining balance goes to the Build Indiana Fund. Since the Lottery's inception, \$2.4 billion has been distributed to the Build Indiana Fund, \$553 million to the Indiana State Teachers' Retirement Fund, and almost \$365 million to the Police Officers' and Firefighters' Pension and Disability Fund. For each of the last three years, net proceeds to the state have exceeded \$200 million.

Core Values

In all we do, we will:

- **Be customer-centric and consumer-centric**
- **Have a passion for excellence**
- **Foster creativity, teamwork, and collaboration**
- **Operate with the highest level of integrity**
- **Commit to the growth and development of our team**

State Lottery Commission

Jean Northenor

Chairperson, Warsaw

Todd Stuart

Commissioner, Indianapolis

Todd A. Etzler

Commissioner, Valparaiso

Paul Thrift

Commissioner, Terre Haute
(Through April 2008)

Gregory M. Fitzloff

Commissioner, Georgetown

A Message From the Lottery Commission

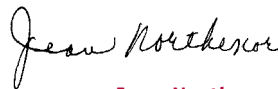
In the past year, the improved organizational structure and excellent direction of the Hoosier Lottery allowed the staff of this quasi state agency to exceed expectations.

Fiscal 2008 was the second year under Kathryn A. Densborn's leadership, and it proved to be one filled with new challenges and changes. The executive team and staff were unified under Kathryn's direction, and the organization proved to be competent and confident in conducting business for today and in planning for the future.

The Hoosier Lottery's success was achieved by offering a variety of fun and entertaining products. Player experience remains an ongoing priority and is essential to maintaining strong Lottery revenues.

As evidenced by the numbers in this report, the Hoosier Lottery continues to fulfill its mission to provide significant funds to the state while offering a compelling product to the market.

It is my pleasure to present the Hoosier Lottery's Annual Report for fiscal year 2008.



Jean Northenor

Chairperson

The State Lottery Commission of Indiana



A Note From the Executive Director

This has been a notable year as we have endeavored to update and improve our offerings to ensure we stay relevant and compelling. We compete for the time and attention not only of our players, but also of our retail customers. As the marketplace continues to contract and evolve, we have adjusted our plans to continue to achieve growth.

Fiscal year 2008 brought a record \$823 million in sales for the Hoosier Lottery, due in large part to the continued strength of our scratch-off games, a record-breaking Hoosier Lotto run, and a \$314 million Powerball jackpot run.

Top of mind is delivering the most revenue possible to the state of Indiana. To do so, we have established a consistent schedule for developing and launching new scratch-off games. We have also made strides in utilizing multiple vendors to make certain we get the best products to the market in a timely fashion. It is not enough to provide entertaining games. We must do so with unquestionable integrity and security.

Through a significant focus on research, we have learned quite a bit about our market and identified new opportunities. Additionally, we have dedicated resources to focus solely on new business development and are beginning to see the fruits of our labor. A thorough and consistent evaluation of our sponsorships and promotional activities has allowed us to create a presence in communities throughout Indiana, to bring value to our customers, and to get closer to our players.

None of this would have been possible without the support of our commissioners and the dedication of our staff. I am so grateful for their commitment and so proud of what we have achieved together. I invite you to review our handiwork on the following pages. Or, if you just want the bottom line—Hoosiers win big!



A handwritten signature in black ink that reads "Kathryn A. Densborn".

Kathryn A. Densborn

Executive Director
Hoosier Lottery

A Banner Year

The Hoosier Lottery set new records for fiscal year 2008. Total revenues increased 4 percent to \$823 million, the highest on record. The Lottery paid out a total of \$503 million in prize money to players and had net income of \$217 million, which was transferred to the Indiana State Treasurer.

The Hoosier Lottery is successful because we deliver what customers want—inexpensive entertainment with the possibility of a reward. As a result, more than half of Indiana's residents who are 18 or older play the Lottery each year.

Given the total revenue, the number of people employed, and the commissions retailers earn from the sale of Lottery products, the Hoosier Lottery is a substantial participant in the Indiana business community. In fact, the Lottery is ranked among the top 25 companies in the state in total sales.¹

This year's sales increase was driven primarily by growth in two products, Hoosier Lotto and scratch-off games. Hoosier Lotto sales jumped more than \$22 million compared to the previous year, propelled by an unusually long 12-month run in which the jackpot rose to record heights. The sale of scratch-off games topped 2007 figures by \$16 million. Many factors contributed, including improvements in product mix and messaging.

Based on total sales, the Hoosier Lottery ranks among the top 25 companies in the state.



\$503 million in prizes awarded to players in fiscal year 2008.

The Real Winner: the State of Indiana

Each year, The State Lottery Commission of Indiana transfers the Lottery's net income for the year to the Indiana State Treasurer. For the third year in a row, earnings given to the state exceeded \$200 million.

\$157 Million
earmarked for the
Build Indiana Fund

\$30 Million
transferred to the Police Officers' and
Firefighters' Pension and Disability Fund

\$30 Million
transferred to the
Indiana State Teachers' Retirement Fund

The Biggest Hoosier Lotto Winner Ever



While other state lotteries are seeing diminishing sales from their in-state lotto games, Hoosier Lotto remains a stable product in the Hoosier Lottery's product portfolio. Played by 25 percent of Hoosiers 18 years of age or older,² it continues to be a popular game 14 years after it was introduced. In fiscal 2008, an extraordinarily long jackpot run yielded significant growth in sales over the prior year. There were lots of winners along the way, including the winner of the \$54.5 million jackpot, the biggest in Hoosier Lotto history.

The Power of Powerball®



The Hoosier Lottery launched Powerball in 1992, and this draw game continues to deliver solid revenue to the state of Indiana. Hoosiers 18 years of age or older play Powerball more than any other Hoosier Lottery product.² It's the strongest brand in the Hoosier Lottery portfolio³ and one of our most profitable draw games. There were 2.3 million winning Powerball tickets in fiscal 2008, and 443,434 of those were Powerball with Power Play.[®] In fiscal 2008, the Hoosier Lottery was lucky enough to have another big jackpot winner—this one for \$314 million.

The Popularity of Scratch-off Games Continues

Since the Hoosier Lottery's inception, scratch-off games have accounted for the largest portion of sales. In fiscal 2008, with \$526 million in sales, scratch-off games represented 64 percent of total revenues. Played by 38 percent of Hoosiers 18 years of age or older,² scratch-off games are available in multiple price points and feature prizes ranging from a free ticket up to \$2 million. The \$1 and \$2 price points are the most popular among the majority of scratch-off players. A total of 74 scratch-off games were launched in fiscal 2008 to meet consumer demand and to appeal to players who look for variety and choice.

Security and Integrity: Priority One

Every year the Hoosier Lottery strives for profitable growth, but in a manner that ensures the security and integrity of the games. In fiscal year 2008, the Security department and the Information Technology department were responsible for guaranteeing the

Since 1992, Indiana has awarded 34 Powerball jackpots—significantly more than any other participating state or jurisdiction.

integrity of all Hoosier Lottery products, which included 93 instant games, daily game drawings twice a day, and promotional drawings throughout the year. Additionally, Security department personnel documented 891 investigations, monitored redemption patterns, and were available to Hoosier Lottery retailers 24 hours a day, seven days a week.

1. Based on IBJ's 2008 Book of Lists, Vol. 28

2. Play Last Year. Customer Purchase Behavior, Marz and Company, April 2007

3. Touchpoints, Optimedia, August 2008

Net Sales by Game

(Millions of Dollars)

	FY08	FY07
Scratch-offs	\$525.9	\$510.2
Pull-Tab	13.4	15.2
Powerball	116.5	118.9
Hoosier Lotto	91.2	69.1
Mix & Match	9.4	11.5
Daily 3/Daily 4	57.4	57.8
Lucky 5	6.2	6.4
Other	2.8	—
Grand Total	<u>\$822.8</u>	<u>\$789.1</u>

Indiana Businesses Win Big With the Hoosier Lottery

Retailers Hit the Jackpot

Retailers generate profit from the Hoosier Lottery in a variety of ways:

- A set commission on the sale of Lottery games
- Commissions on winning ticket redemptions
- A bonus for selling the winning ticket for the Hoosier Lotto jackpot, the Powerball jackpot, Powerball Match 5, and the Mix & Match top prize
- A points-based bonus program

Overall, a total of more than \$59 million was paid to nearly 4,000 retailers in fiscal 2008. This represented an 8 percent increase compared to the previous year.



The Hoosier Lottery supports retailers through ongoing merchandising programs.

On December 6, 2007, Tony Deek, owner of a Lucky Stop gas station/convenience store in Michigan City, picked up a \$25,000 bonus check for selling a winning \$2.5 million Hoosier Lotto ticket.



Partners in Business

The Hoosier Lottery tailors marketing and merchandising programs to meet retailers' needs. The combined strength of the Hoosier Lottery and Powerball brands drives traffic to retail locations.

Members of the Hoosier Lottery sales staff regularly visit retail locations to monitor game performance and make appropriate adjustments to ensure retailers are stocking and featuring the best-performing games. During these visits, staff members also provide education and training for retail employees.

Indiana Wins Big

\$3.3 Billion Return on Investment

Sales for fiscal year 2008 netted \$217 million for distribution to the state of Indiana. This funding benefits all Hoosier citizens. Since 1989, the Hoosier Lottery has returned a total of \$3.3 billion to the state of Indiana on an original investment of \$6 million. In fact, the initial seed money was repaid with interest in less than a year.



Keeping Excise Taxes Low

The Indiana General Assembly determines how Lottery profits are spent. \$157 million was allocated to the Build Indiana Fund in fiscal 2008. Through allocations to this fund, a significant portion of Hoosier Lottery dollars have helped reduce the vehicle excise tax costs for Indiana citizens. A total of \$2.4 billion has been turned over to this fund since the Hoosier Lottery's inception.

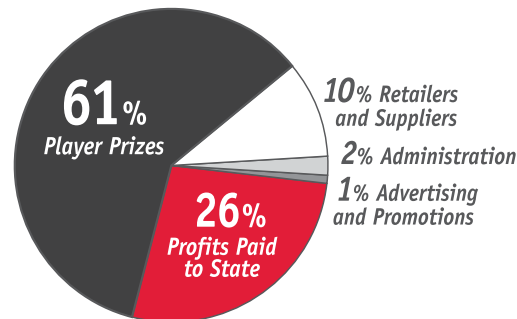
Lottery Proceeds Help Those Who Have Served Indiana

In addition to the money distributed to the Build Indiana Fund, \$30 million is allocated to the Police Officers' and Firefighters' Pension and Disability Fund and \$30 million to the Indiana State Teachers' Retirement Fund. A total of \$918 million has been turned over to these two funds since the Hoosier Lottery's inception.

Focused on the Bottom Line

The employees of the Hoosier Lottery recognize that the Lottery's mission is to raise money for the state of Indiana. Therefore, efficiency is critical to success. In total, approximately 95 percent of all monies taken in each year is paid out in cash winnings, contributions to the state of Indiana, and commissions to Indiana retailers that sell Lottery tickets.

Fiscal Year 2008 Breakdown of Sales Dollars



\$217 Million
net income in fiscal 2008

\$3.3 Billion
back to the state of Indiana since 1989

Stanton Renner
Retired Teacher
Hamilton Heights High School
Served 40 years

Robert J. McGrath
Retired IFD Fire Fighter
Served 37 years

Janet Cotton
Retired IPD Police Officer
Served 32 years



STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$68,074,259	\$92,834,599
Investments—current portion	8,585,823	7,861,153
Accounts receivable—net	32,423,283	31,271,899
Prepaid expenses	5,215,736	5,386,399
Accrued interest receivable	715,041	534,603
Ticket inventory	229,937	95,713
<i>Total current assets</i>	<u>115,244,079</u>	<u>137,984,366</u>
NONCURRENT ASSETS:		
Long-term investments—less current portion	82,146,691	74,315,459
Restricted assets	8,074,698	8,013,262
Capital assets—net	3,736,960	2,159,263
<i>Total noncurrent assets</i>	<u>93,958,349</u>	<u>84,487,984</u>
TOTAL	<u>\$209,202,428</u>	<u>\$222,472,350</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
State	\$51,340,603	\$58,303,566
Trade	6,718,479	9,019,348
Current portion of prize liability	62,584,910	72,198,080
Deferred revenue	783,615	438,306
Other accrued expenses	2,145,033	1,799,562
<i>Total current liabilities</i>	<u>123,572,640</u>	<u>141,758,862</u>
LONG-TERM LIABILITIES—Prize liability less current portion	<u>80,629,788</u>	<u>75,713,488</u>
<i>Total liabilities</i>	<u>204,202,428</u>	<u>217,472,350</u>
NET ASSETS:		
Unrestricted	1,263,040	2,840,737
Invested in capital assets	3,736,960	2,159,263
<i>Total net assets</i>	<u>5,000,000</u>	<u>5,000,000</u>
TOTAL	<u>\$209,202,428</u>	<u>\$222,472,350</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

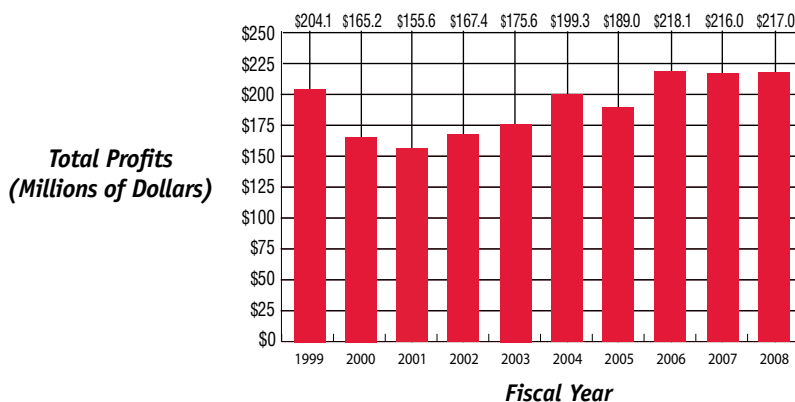
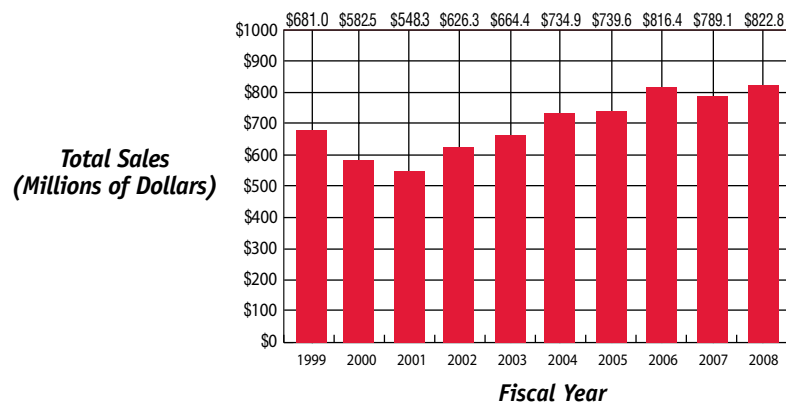
	2008	2007
OPERATING REVENUES:		
Instant ticket sales—net	\$539,321,205	\$525,409,657
On-line ticket sales	283,523,946	263,646,309
<i>Total operating revenues</i>	<u>822,845,151</u>	<u>789,055,966</u>
OPERATING EXPENSES:		
Direct game expenses:		
Instant game prizes	360,763,282	350,606,825
On-line games prizes	142,531,880	127,204,747
	<u>503,295,162</u>	<u>477,811,572</u>
Indirect game expenses:		
Retailer commissions	59,499,591	55,076,782
Ticket printing costs	8,620,546	8,163,519
Advertising and promotion	9,837,030	7,982,552
On-line professional services	8,358,404	7,718,453
ITVM lease and courier services	3,662,997	3,931,590
	<u>89,978,568</u>	<u>82,872,896</u>
<i>Total game expenses</i>	<u>593,273,730</u>	<u>560,684,468</u>
OTHER OPERATING EXPENSES:		
Salaries, wages, and benefits	14,589,704	12,639,843
General and administrative	5,000,032	4,247,820
<i>Total other operating expenses</i>	<u>19,589,736</u>	<u>16,887,663</u>
<i>Total operating expenses</i>	<u>612,863,466</u>	<u>577,572,131</u>
OPERATING INCOME	<u>209,981,685</u>	<u>211,483,835</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	3,910,889	3,984,323
Net increase (decrease) in fair value of investments	2,944,523	126,610
Other income (expense)	230,062	385,897
<i>Total non-operating revenues (expenses)</i>	<u>7,085,474</u>	<u>4,496,830</u>
NET INCOME PRIOR TO DISTRIBUTIONS	<u>217,067,159</u>	<u>215,980,665</u>
DISTRIBUTIONS:		
Distributions to the State	(165,726,556)	(159,264,732)
Distributions to be paid to the State	(51,340,603)	(58,303,566)
<i>Total distributions</i>	<u>(217,067,159)</u>	<u>(217,568,298)</u>
CHANGES IN NET ASSETS	-	(1,587,633)
NET ASSETS—Beginning of year	<u>5,000,000</u>	<u>6,587,633</u>
NET ASSETS—Ending of year	<u>\$5,000,000</u>	<u>\$5,000,000</u>

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from ticket sales	\$822,069,641	\$786,444,176
Payments to ticket winners	(507,992,032)	(455,479,589)
Payments to employees	(14,244,233)	(13,650,061)
Payments to suppliers	(95,177,329)	(86,365,705)
<i>Net cash provided by operating activities</i>	<u>204,656,047</u>	<u>230,948,821</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Distributions to the State	(224,030,122)	(210,859,622)
Other income	230,062	385,897
Net increase (decrease) in restricted assets	(61,436)	979,461
<i>Net cash used in noncapital and related financing activities</i>	<u>(223,861,496)</u>	<u>(209,494,264)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(3,713,319)	(873,126)
Proceeds from the sale of capital assets	39,356	29,634
<i>Net cash used in capital and related financing activities</i>	<u>(3,673,963)</u>	<u>(843,492)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(9,551,318)	(16,370,047)
Investment maturities	3,939,939	7,234,000
Interest income	3,730,451	3,516,877
<i>Net cash used in investing activities</i>	<u>(1,880,928)</u>	<u>(5,619,170)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,760,340)	14,991,895
CASH AND CASH EQUIVALENTS—Beginning of year	<u>92,834,599</u>	<u>77,842,704</u>
CASH AND CASH EQUIVALENTS—End of year	<u><u>\$68,074,259</u></u>	<u><u>\$92,834,599</u></u>

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$209,981,685	\$211,483,835
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,065,701	1,511,158
Change in provision for doubtful accounts	27,577	54,313
Change in provision for ticket returns	994,710	(317,090)
Loss (gain) on sale of fixed assets	30,565	(20,299)
Changes in certain assets and liabilities:		
Accounts receivable	(2,173,671)	(1,707,647)
Instant ticket inventory	(134,224)	253,170
Prepaid expenses	170,663	(2,299,239)
Accounts payable—trade	(2,300,869)	1,289,922
Deferred revenue	345,309	(621,067)
Other accrued expenses	345,471	(1,010,218)
Prize liability	(4,696,870)	22,331,983
<i>Net cash provided by operating activities</i>	<u><u>\$204,656,047</u></u>	<u><u>\$230,948,821</u></u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES —		
<i>Net increase in fair value of investments</i>	<u><u>\$2,944,523</u></u>	<u><u>\$126,610</u></u>



Headquarters

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201 S. Capitol Ave.
Indianapolis, IN 46225

Regional Offices

Central Region

5252 Decatur Blvd.
Indianapolis, IN 46241

Northwestern Region

1344 Broadway
Gary, IN 46407

1539 N. Ironwood Dr.
South Bend, IN 46635

Northeastern Region

3711 Vanguard Dr., Suite I
Fort Wayne, IN 46809

Southern Region

Water Tower Square, Suite 104
590 Missouri Avenue
Jeffersonville, IN 47130

5625 E. Virginia St.
Evansville, IN 47715

Western Region

680 E. Springhill Dr.
Terre Haute, IN 47802

